

# Money Matters

for Newcomers and New Canadians

## Workbook 2 How to Build Credit In Canada



Founding Sponsor



THE  
READY  
COMMITMENT



## Welcome!

This workshop is about **credit**.

Credit is buying something now, but paying for it later.

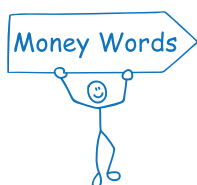
Credit can be useful to help us manage our money. But it can also get us into trouble. If you use credit, you need to know how it works.

In this workshop, you will:

- Learn how credit can work for you
- Get tips on building good credit
- Explore ways to borrow money in Canada

We want you to leave confident to take the next steps that are right for you and your family.

Let's get started!



**Credit** is buying now and paying later.

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## Credits

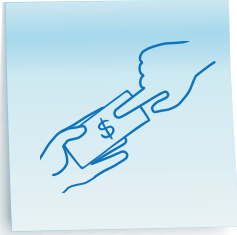
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Activity 1



## Getting in Touch With Your Money

### A self-assessment quiz

What to do?

- Check off the statement that best applies to you.
- Think about your money, your needs, your life.
- Have you ever put something on credit?
- Did you (or do you still) find it hard to clear off your debt?

- I don't buy anything on credit.
- I owe money on a loan, but always make my payments on time.
- I worry about my debt. I can't sleep and even feel ill about it.
- None of the above applies to me. Here's my situation:

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A Place for Your Notes:

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Activity 2

Group Discussion



Is debt bad? Is credit bad?

Is there such a thing as good debt and good credit?

What does it mean to use credit to your advantage?



Think about your income.

What about your expenses?

Are you spending more than you make?

Are you making up the difference by going into debt?

Do you have a plan to pay it off?

A Place for Your Notes:

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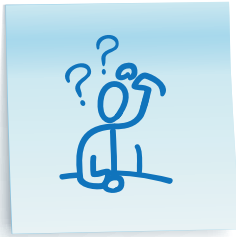
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**Activity 3**

**What's My Situation?**



Read the statements below, and circle the answer that works for you. There are no right or wrong answers here—they are all about you and your life.

Statement		My Situation		
		Yes	No	I don't know
1. I pay my bills on time.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. I'm careful about the total amount of debt I owe.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. I know what happens if I make a late payment on the money I owe.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. I've asked for my credit report in Canada.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. I avoid using kinds of credit that charge high fees and interest.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I have a credit card to build a good credit history.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. I've gone for a free appointment with a non-profit credit counsellor.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. I have a debt payment plan for myself.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. I have talked with my family about building and protecting our credit.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**A Place for Your Notes:**

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**Activity 4**



**Why Credit Matters**

Your credit history tells others how you have used credit in the past in Canada. There are a number of benefits to having a good credit history. Here are four ways people might use your credit history.

1. **Lenders** may use it to decide if they will give you a loan, credit card or a mortgage.
2. **Landlords** may use it to decide if they will rent you an apartment.
3. **Insurance companies** may use it to decide if they will insure you.
4. **Employers** may use it to decide if they will give you work.

Your credit history can also affect the amount of money you're loaned, or what interest rate or fees you'll have to pay. The better your credit rating, the more options are open to you—and the rates you pay will be less.

**Who might be interested in your credit history in the near future?**

- Lenders**
- Landlords**
- Insurance companies**
- Employers**

**A Place for Your Notes:**

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**Activity 5**



## Credit Reports and Credit Scores

How do you know whether your credit history is good or bad? You can ask for your **credit report** or your **credit score**.

### Credit Reports

In Canada, everyone has a credit report. The report describes your credit history—how you’ve used credit during your time in Canada.

Your credit history in other countries doesn’t follow you to Canada. If you haven’t been in Canada for very long, your credit report might not have much information yet. But every time you use credit in Canada, that information is added to your credit report. It will list all the types of credit you have used. For example, it might list credit cards, department store cards, or consumer loans.

You can get a free copy of your credit report by contacting a Credit Bureau like Equifax or Transunion.

It’s good for most of us to see our report once a year so that we can check for errors and be aware of what others are reading about us.



A **credit report** is a report that describes your credit history—how you’ve used credit during your time in Canada.

A Place for Your Notes:

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**Activity 5**

## Continued: Credit Reports and Credit Scores



### Credit Score

In Canada, everyone has a credit score. This is a number from 300 – 900. The better your credit history, the higher your credit score. A high score tells people who might lend you money that you're "safe"—that you're likely to repay your credit as agreed.

Your score is not on your standard free credit report. But you can pay the Credit Bureau to see your score.



**Get your copy**

You can get a free copy of your credit report by contacting a Credit Bureau like Equifax or Transunion.

[www.equifax.ca](http://www.equifax.ca)

[www.transunion.ca](http://www.transunion.ca)

Remember that your credit report should be free! You can get a copy once every year for no fee.

You have to pay to see your credit score, though.

**A Place for Your Notes:**

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**Activity 6**

**Tips to Build Good Credit History**



- 1. Use credit.**  
You can't build a credit history without using credit. Just make sure that when you do use it, you follow the other tips so that the credit history you're building is good.
- 2. Pay your bills on time.**  
Late payments weaken your credit history. Keep track of your due dates and manage your money so you can pay all your bills on time.
- 3. Pay your balance in full.**  
This tip is a good way to stop debt from getting out of control. If you can't pay in full, pay as much as you can, but pay it on time. Be sure to at least make the minimum payment.
- 4. Pay your debt as fast as you can.**  
Being in debt for a long time will cost you a lot in interest and can be hard to manage.
- 5. Stay within your credit limit.**  
Try to keep your balance well below your credit limit.

*A Place for Your Notes:*

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## Activity 7 Ways to Borrow



Type of borrowing	What it is	Money notes
<b>Payday loan</b>	A short-term loan from a cash store.	Fees are high. If the loan isn't paid back by the due date, interest rates increase a lot.
<b>Buy now, pay later</b>	An offer by a store where you get the item now, and agree to pay the full amount by a due date.	If you don't pay in time, you often have to pay a high interest rate starting from the date you got the item. Sometimes there is an administration fee.
<b>Rent to own</b>	You rent an item. After a period of payments, you own the item or may purchase it. You don't own the item while you're renting it.	You end up paying much more for the item than if you bought it at the start.
<b>Lease</b>	You rent an item for a period of time, but don't own it.	At the end of the lease, there may be hidden costs, such as "wear and tear" on a car.
<b>Pawn shop</b>	A place where you get a loan by using an item you own as a deposit.	If you don't repay the loan in time, the pawn shop keeps the item.
<b>Bank credit card</b>	A credit card from a bank, or another financial institution.	Interest rates and fees vary. There are low interest credit cards.
<b>Retail credit card</b>	A credit card from a store.	Interest rate is often much higher than a bank credit card.

## More Ways to Borrow

Type of borrowing	What it is	Money notes
<b>Line of credit</b>	A loan where you can borrow money when you need it. The loan is pre-approved.	Interest rate is often lower than a credit card or other types of loans.
<b>Cash advance on a bank credit card</b>	You take out a cash loan on your credit card.	Although you often pay more interest than using a line of credit, the amount is less than a payday loan.
<b>Overdraft</b>	It allows you to withdraw more money than you have in your bank account.	You pay interest on the amount you've borrowed until you pay the amount back in your account plus the fees. It costs less than a payday loan. There is a maximum amount of time you can have your account in overdraft before it affects your credit history.
<b>Secured credit card</b>	A credit card that requires you to leave a deposit with the bank. Your credit limit is the same as the amount you deposited to get the card.	This type of card allows you to build your credit safely.
<b>Personal loan</b>	A loan for personal use rather than business. Also called a consumer loan.	Interest rates vary according to your credit history and what you're borrowing the money for.
<b>Mortgage</b>	A personal loan for buying a home. It is often considered a "good" debt.	Interest rates vary. If you don't make your payments, you can lose your house.
<b>Student loan</b>	A government loan to help pay tuition and other costs. It is often considered a "good" debt.	Interest rate is low. You pay back the loan at a set time after leaving school.

**Activity 8**

**Group Discussion**

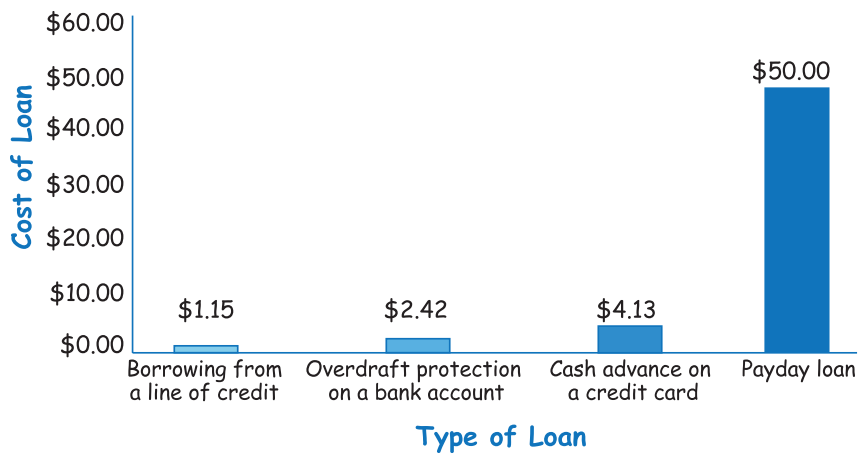


What are good and bad things about the different ways of borrowing?

If you have to borrow money, what makes the most money sense to you?

**Comparing the cost of a payday loan with other types of short-term loans**

**Based on a \$300 loan taken for 14 days**



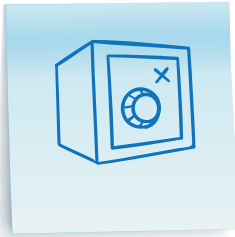
Source of chart: Financial Consumer Agency of Canada



Stores often offer interest-free deals for purchases made with the store's retail credit card. But if you don't pay back the money you owe in full by the time the interest-free period ends, you get charged interest from the date you made the purchase. Sometimes an administration fee is charged by the store, too.

Since the interest rate for store cards is higher than for bank credit cards, this can end up costing you a lot.

**Activity 9**



## Protect Your Money

Do you...

- Check your monthly **credit card statements** to make sure that all the transactions were made by you?
- Cover **the keypad** with your hand or body to make sure no one can see the number when entering your **PIN**?
- Choose a PIN that is **hard** for someone else to guess, and keep your PIN **secret**?
- Refuse to give your credit card information on the **telephone** or through **email**?
- Know how to **contact** your **credit card issuer** right away if your credit card is stolen or you find transactions that you did not make on your statement?



**PIN** is short for **Personal Identification Number**.

Have you been a victim of credit card fraud?

If so, how was your personal information or credit card stolen?

Could you have prevented the fraud?



"Credit card fraud happens when someone steals your credit card, credit card information, or PIN and uses it without your permission to make purchases in stores, online or by telephone, or to withdraw money from an automated bank machine."  
Financial Consumer Agency of Canada

A Place for Your Notes:

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### Activity 10



## Signs Your Debt is Too Big

Check any statements that apply to you.

- I use my credit card to buy small purchases.
- My credit card is “maxed out” or close to the limit.
- I borrow to pay my credit card and other debts.
- I skip payments.
- I use payday loans to get by.
- I have less (or no) money left for food because of my debt.
- If I needed extra cash for an emergency, I’d have trouble finding it.
- I worry about my debt. I can’t sleep and even feel ill about it.



The **creditor** is the person or business that has lent you money.



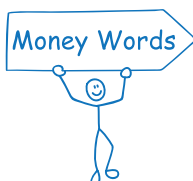
**Call your creditors** and explain the situation if you can’t pay your bills. In most cases, they will work out a payment plan that will make it easier for you to pay off your debt.



### Group Discussion

If one or more of the above statements applies to you, then your debt is too big. What can you do? What help is available?

Find out the contact information of a non-profit credit counselling service in your community.



**Credit counselling** provides help when your debt is too big for you to manage. This help might include calling your creditors to reduce your interest rates and late fees.

**Activity 11**



## Getting Your Money in Order

Paying off a credit card in full each month, or getting rid of a debt altogether, saves you money since you're not paying interest fees. You're also building a good credit history. If you can't pay off your credit card completely, you must still pay your minimum payments to keep your credit history strong.

Reducing the amount you owe, even a little, saves you money since you're paying less interest fees.

## Taking a First Step

Pay off **first** your debt with the highest interest rate. Then work on the debt with the next highest interest rate... and so on.



## Try This

Here's the best order for me to pay off my debts so I save the most money:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

**A Place for Your Notes:**

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### Activity 12

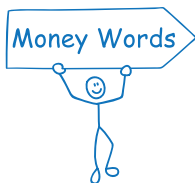
## Do the Money Math



Do you know the annual percentage rate (APR) on your credit card or a debt you might owe?

How much interest do you pay each month, in general?

If you don't know, how can you find out?



The **minimum payment** is the minimum amount you're required to pay on a credit card bill.

A Place for Your Notes:

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**Activity 13**

**What's Important to You?**



Is it in your best interest to have a credit card? If so, what kind? If you have a credit card now, is it the best one for you?

You have choices.

1. **Know the interest rate.** Interest rates vary greatly. Choosing the right card can save you lots of money on your payments.
2. **Know the service charges and fees.** Some cards have an annual fee. Does the annual fee save you money in interest charges?
3. **Know the costs of the rewards program.** Some credit cards offer rewards for using the card. Are the rewards worth more than your interest payments?

Here's the most important thing for me when choosing a credit card:

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If you can't pay off your credit card, switch your balance to a **personal loan** or a **line of credit** that has a lower interest rate. You'll pay less in interest charges on the money you owe.

A Place for Your Notes:

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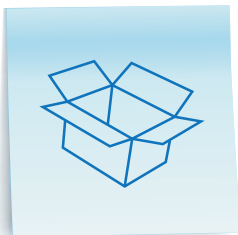
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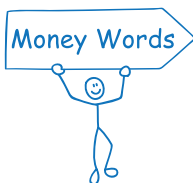
### Activity 14

## Look for the Information Box



Be sure of the details such as fees and interest rate before signing a contract for a credit card.

One way is to read the information box on the credit card application. Check out the sample of an information box on the next page.

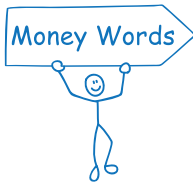


An **Information Box** is the boxed area on your credit card agreement, and also on the statement or bill you get each month. It tells you important details about your credit card.



### Group Discussion

What could you do if you have trouble reading or understanding a contract? Has a “pushy” salesperson ever rushed you to sign a contract?



A signed **contract** is a legal document of agreement between you and another person or a business. You are responsible for what you sign, so be sure of the terms of the contract.

A Place for Your Notes:

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## Sample Information Box for a Credit Card Agreement

<p><b>Initial credit limit</b></p>	<p><b>\$5,000</b></p>
<p><b>Annual interest rate or rates</b></p>	<p>These interest rates are in effect the day your account is activated.</p> <ul style="list-style-type: none"> <li>• Promotional rate on purchases: <b>4.99%</b> for your first three monthly statements</li> <li>• Purchases: <b>19.75%</b> following the promotional period</li> <li>• Cash advances: <b>21.5%</b></li> <li>• Balance transfers: <b>21.5%</b></li> </ul> <p>Your interest rate will increase to <b>24.75</b> on your next statement if you:</p> <ul style="list-style-type: none"> <li>• Make a late payment</li> <li>• Go over your credit limit</li> <li>• Make a payment that is returned</li> <li>• Fail to meet any of the terms in the cardholder agreement.</li> </ul>
<p><b>Interest-free grace period</b></p>	<p><b>21 days</b></p> <p>When you use the card to make purchases, you will benefit from an interest-free grace period of at least 21 days if you pay off your balance in full by the due date.</p> <p>There is no interest-free period on cash advances or balance transfers.</p>
<p><b>Determination of interest</b></p>	<p>If interest is charged, it is calculated on your daily average balance and charged monthly to your account on the last day of your billing cycle.</p>

Excerpted from: “Credit Cards: Understanding Your Rights and Your Responsibilities”  
 Financial Consumer Agency of Canada.



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for Newcomers and New Canadians

Thank you for participating in *Money Matters*  
for Newcomers and New Canadians.

